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From: Ermes Monaco
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To: Ermes Monaco
Subject: SELECT VALUED CLIENT MAIL LIST: Pre-Fall Commentary

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Source: Google Images

The economic story is really not as grim as the image conveys. In fact, despite a more moderate rate of growth, the financial markets have weathered considerable event risk and achieved new highs post 2008 recession. However, a harsh reality has become more apparent recently that suggests the road to success has become increasingly indifferent to human versus financial considerations. ***Therefore, we should be careful to assume financial success will equate to human benefits.***

Witness the following evidence:

- Since 2016 the financial markets have become "de-sensitized" to event risk to the extent that ***only financial events (in yellow) have any material bearing on market performance.***

Tax cut announcement

North Korea threat **Trade tariff threat** **U.S./ Mexico trade negotiation and ultimate agreement excluding Canada ***

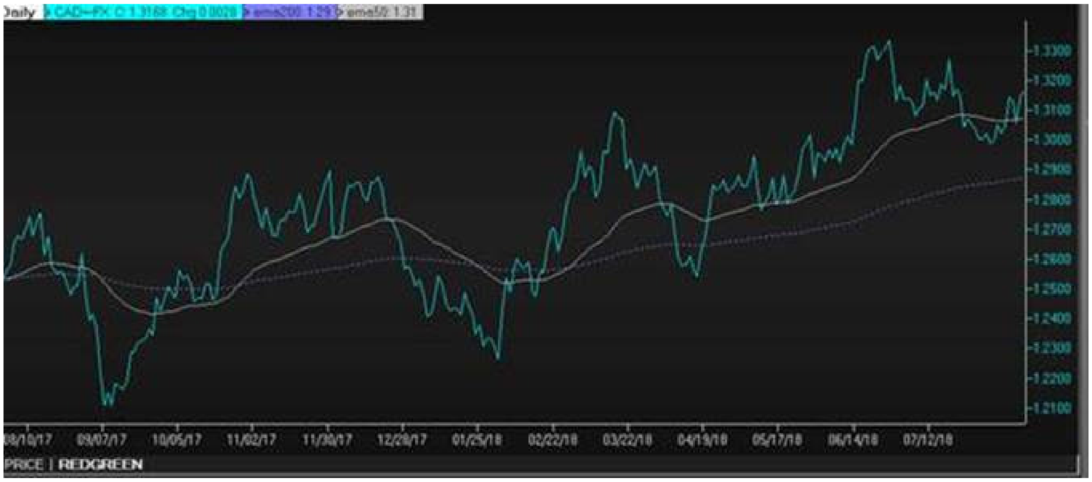
Stormy Daniels scandal **Immigration crisis – separation of children**

Chart source: Thomson Reuters

** During the time of writing these negotiations ultimately concluded with an agreement which created market optimism*

- U.S. initiated trade tariffs are leading to higher product costs as well as increased global political and economic tensions. However, corporate earnings growth continues to be strong having averaged approx **8.5%** annually over the past 10 years. This has acted to maintain stock price momentum. By comparison, ***labour income has only averaged approx less than .25% annually over the same period*** (Tradingeconomics.com)***.*** This has limited consumer consumption which, in turn, has kept inflation pressure at bay, albeit financed by the consumer.

- Despite the increasing size of the U.S. federal debt, contributed most recently by the 2017 tax cut and compensation to companies having lost business due to trade tariffs, the U.S. dollar continues to demonstrate strength. As reported by the Washington Post June 19, 2018, ***a Republican House Committee issued a proposal June 12 to cut to social benefits, healthcare and pensions as a source to help cover the debt.***



Source: Thomson Reuters

Even if the financial markets continue to act in self-interest, is there reason to be concerned at this time?

Source: Google Images

- **If the financial markets continue to prosper without regard to the benefit to the consumer or the middle class, there is a risk that the divide between rich and the poor will continue to widen. Not only is there a social disruption element if this worsens but the consumer continues to represent 70% of the U.S. GDP (tradingeconomics.com) which could decline at the expense of GDP.**

- **There is the possibility that the financial market may weaken instead of continuing to grow as the benefit equilibrium remains unbalanced. The possibility of a "chaos theory" effect exists where current events can have a more significant impact later. The effects of trade tariffs accumulate over time and deteriorating social conditions which are overlooked today become more costly to remedy in the future.**

Given we are approaching new highs in the stock markets together with the prospect of political event risk in November arising from upcoming U.S. mid-term elections, it is possible conditions have been created that will trigger a change in sentiment and market direction. What we are now gauging is the pulse of market "sentiment". The critical outcome will be the control of the House of Representatives (Congress) currently controlled by the Republicans. The "House" has the ability to challenge and restrict unilateral presidential initiatives.

- Should the Democrats win control of Congress, this will send a global signal that the current provocative tone of the U.S. federal administration will no longer represent the U.S. position globally without review and censure if needed. While the financial markets would likely react negatively initially to change, better global economic relations and a more predictable business environment will also result to relieve this concern.
- However, should the Republicans continue to control both Congress and the Senate, then the risk of chaos theory will persist with consequent continued volatility and investor uncertainty.

Regards

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